BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2020-_____-E

In the Matter of:	)	
	)	
Petition of Duke Energy Progress, LLC for An Accounting Order Related to the Asheville Combined Cycle Generating Plant	)))))))	**PETITION OF DUKE ENERGY PROGRESS, LLC FOR AN ACCOUNTING ORDER FOR COSTS ASSOCIATED WITH NEW GENERATION TO BE INLCUDED IN A FUTURE RATE CASE**

Duke Energy Progress, LLC ("DEP" or the "Company") hereby respectfully petitions the Public Service Commission of South Carolina (the "Commission") pursuant to S.C. Code Ann. § 58-27-1540 and S.C. Code Reg. 103-825, and other applicable rules and regulations of the Commission, to issue an accounting order for regulatory accounting purposes authorizing DEP to defer in a regulatory asset account certain post-in-service costs being incurred in connection with the addition of the 560-megawatt Asheville Combined Cycle Station ("Asheville CC") as part of the Company's Western Carolinas Modernization Project.[1] The unrecovered incremental costs will be submitted as a cost component of electric rates in DEP's next rate case filing. This Petition includes an estimate of deferred costs, but notes that deferred costs to be recorded on the Company's accounting records will be based on actual costs and the effective date of new rates in the Company's next rate case.

The request for relief set forth herein will not involve a change to any of the Company's retail rates or prices at this time, or require any change in any Commission rule, regulation, or

[1] On February 29, 2016, the North Carolinas Utilities Commission approved construction of this $893 million combined-cycle natural gas plant project. Such approval also included Duke Energy's commitment to retire the coal-fired units located on-site, commitment to work with customers to reduce energy use through energy efficiency and conservation programs and plans to build new solar and utility-scale battery storage in the Western Carolinas region to serve customers in North Carolina and South Carolina.

policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition.

In support thereof, DEP respectfully shows the following:

Name and Address of the Company

The correct name and post office address of the Company are:

Duke Energy Progress, LLC
410 S. Wilmington Street
Raleigh, NC 27602

Notices and Communications

The names and addresses of the attorneys who are authorized to receive notices and communications with respect to this Petition are:

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Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.

<u>Description of the Company</u>

DEP is a public utility engaged in the generation, transmission, distribution, and sale of electric energy in the eastern portion of South Carolina and western portions of North Carolina. DEP also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities, and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). It is a public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State. The Company is also authorized to transact business in the State of North Carolina and is a public utility under the laws of that State. Accordingly, its operations in that State are subject to the jurisdiction of the North Carolina Utilities Commission ("NCUC").

<u>Addition of the Asheville Combined Cycle Station</u>

As part of the Company's Western Carolinas Modernization Project, DEP retired two coal-fired units at the Asheville site on January 29, 2020, and replaced the coal-fired units with the Asheville CC, which consists of two efficient 280-megawatt Combined Cycle Power Blocks. On December 27, 2019, the first 280-megawatt Asheville CC Power Block and the common systems that serve both combined cycle power blocks went into commercial operation. Power Block 1 consists of the Unit 5 Combustion Turbine Generator and Unit 6 Steam Turbine Generator (which together form the first combined cycle power block). Power Block 2 consists of the Unit 7 Combustion Turbine Generator and Unit 8 Steam Turbine Generator (which together form the second combined cycle power block). DEP placed the Unit 7 Combustion Turbine Generator on Power Block 2 into commercial operation in simple-cycle mode on January 15, 2020. DEP placed the Unit 8 Steam Turbine Generator into commercial operation on April 5, 2020. The new

Asheville CC features generating technology to increase efficiency and reduce carbon emissions across the Carolinas for the benefit of customers.

The Asheville CC was granted a certificate of public convenience and necessity ("CPCN") by the NCUC in Docket No. E-2, Sub 1089 on March 28, 2016. The costs of construction of the Asheville CC units total approximately $817 million.[2]

Under Generally Accepted Accounting Principles ("GAAP") and in accordance with the FERC's Uniform Systems of Accounts (as adopted by this Commission), the cost of assets such as the Asheville CC are recorded on the Company's balance sheet as fixed assets and charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's cost over its service life and period of benefit is referred to as depreciation. Depreciation allows for the matching of the expense associated with a fixed asset to the revenue that the Company recognizes as a result of utilizing the asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate making, annual depreciation expense is included within the utility's Commission-approved base rates. The amount of annual depreciation expense that DEP expects to incur after the Asheville CC goes into operation is not currently included within DEP's existing retail electric base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, this event is a fundamental departure from the matching principle. Accordingly, DEP seeks authorization to defer as a regulatory asset the depreciation expense incurred by DEP associated with the Asheville CC until such amounts are reflected within DEP's retail electric base rates.

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[2] Actual costs are lower than original estimates included in the CPCN.

Further, DEP will incur incremental property taxes and incremental operations and maintenance ("O&M") expenses associated with the addition of the Asheville CC. The incremental O&M expense will be more than offset by the elimination of O&M expense at the retired coal-fired units at Asheville. These additional property taxes and O&M expenses net of O&M savings are not reflected in DEP's existing base rates. Accordingly, DEP seeks authority to defer, as a regulatory asset, the incremental property tax and O&M expenses incurred by DEP associated with the addition of the Asheville CC until recovery of such amounts and carrying costs on such amounts until they are reflected within DEP's retail electric base rates.

The costs DEP is seeking to defer are the Asheville CC's cost of capital, depreciation expense, property taxes, incremental O&M net of O&M savings, and carrying costs at weighted average cost of capital, consistent with prior treatment of new generation. The following table shows the split of these estimated annual costs for the Asheville CC on a South Carolina basis:

	Asheville Combined Cycle Generating Plant - $ in Millions
Cost of Capital	$5.5
Depreciation Expense	$2.8
Property Taxes	$.3
O&M	$(.6)
Carrying Costs	$.2
Total Deferred Cost	$8.2

Financial Consequences of the Company's Request

In its fourth quarter 2019 financial report filed with the Commission, DEP reported an annual return on common equity of 5.49 percent adjusted, for the twelve months ending December 31, 2019. On an adjusted basis, the Company's rate of return on jurisdictional common equity is less than the 9.5 percent approved by the Commission in DEP's last general rate case in Docket No. 2018-318-E. Without approval of this deferral request, the Company will face additional earnings degradation of approximately 35 basis points. Approval of this deferral request will benefit the Company and its customers by helping to ensure investors' confidence in DEP, and help assure access to needed capital on reasonable terms and equitable treatment as to deferred costs and revenues. The Company will propose to amortize these deferred costs over a multi-year period in a subsequent rate case.

Commission Precedent for Deferral Accounting

The Commission has historically authorized deferral accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. See, e.g., *Accounting Order*, Order No. 2009-254 (April 9, 2009), Docket No. 2009-59-E; *Accounting Order to Defer Certain Environmental Compliance Costs at Unit 5 of the Cliffside Steam Station*, Order No. 2011-80 (February 1, 2011), Docket No. 2010-392-E; *Order Granting Petition for Accounting Order*, Order No. 2012-208 (April 3, 2012), Docket No. 2012-57-E; *Accounting Order on Wayne County Combined Cycle Plant*, Order No. 2013-351 (May 30, 2013), Docket No. 2013-155-E; and *Order Granting Petition for Deferrals and Other Relief*, Order No. 2014-138 (January 30, 2014), Docket No. 2013-472-E. In that petition, DEP requested an accounting order allowing it to defer the post in-service incremental depreciation expense and incremental property taxes related to that plant. As with Sutton at the time of the Company's request, Asheville is a certified plant that currently benefits DEP customers. Accordingly, the deferral request in this case is markedly similar to previous deferrals authorized by the Commission.

Conclusion

The accounting order granting the relief DEP seeks in this Petition will not preclude the Commission from addressing the reasonableness of the costs deferred in the regulatory asset account in DEP's next general rate proceeding. Therefore, the Company petitions the Commission to defer as a regulatory asset the South Carolina Retail allocation portion of the revenue requirement associated with the Asheville Combined Cycle Generating Plant as described herein, until such time as rate recovery for these assets is provided in DEP's Commission-approved base rates.

Respectfully submitted this 2nd day of June, 2020.

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